

1 STATEMENT  
2 OF  
3 VIRGINIA J. MAYES  
4

5 AUTOBIOGRAPHICAL SKETCH  
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7 My name is Virginia J. Mayes. I am the Manager of Cost Attribution in Regulatory  
8 Reporting and Cost Analysis, part of the Finance Department at the United States  
9 Postal Service Headquarters.

10 I have previously provided testimony before the Postal Regulatory Commission  
11 (when it was the Postal Rate Commission) on several occasions. In Docket Nos.  
12 R2005-1 and R2006-1, I provided testimony on the estimated cost avoidances used to  
13 support the Standard Mail and Periodicals destination entry discounts, the  
14 transportation costs for Parcel Post and Bound Printed Matter, and the estimated costs  
15 of Bulk Parcel Return Service. In Docket No. R2001-1, I testified on the estimated cost  
16 avoidances used to support the Standard Mail and Periodicals destination entry  
17 discounts. In Docket No. R2000-1, I testified as the Postal Service's witness on rate  
18 level proposals. I testified on rate design for Parcel Post in Docket Nos. R97-1 and  
19 MC97-1. I designed rates for both domestic and international Express Mail in 1990, and  
20 testified on domestic Express Mail rate design in Docket No. R90-1. I was a rebuttal  
21 witness on behalf of the Postal Service in Docket No. MC93-1.

22 I joined the Postal Service in 1987 as an Economist in the Rate Development  
23 Division, subsequently renamed Pricing, where I worked on revenue forgone and rate  
24 design. After a year-long detail assignment in Forecasting, and serving as Acting  
25 Manager of Classification and Product Development, in 2000, I became the Manager of  
26 Special Studies, supervising the development of cost models and production of material  
27 to be filed in the Annual Compliance Reports to support the estimation of workshare

1 cost avoidances, Special Services costs, and other analyses. Prior to joining the Postal  
2 Service, I was employed with the economic consulting firm of Robert R. Nathan  
3 Associates. I had also worked as a statistician at the Bureau of the Census and as an  
4 economic analyst with the International Trade Commission. I received a Bachelor's  
5 Degree in Economics and Psychology from Washington University in St. Louis, and  
6 completed a Master's Degree in Economics at Brown University.

### **PURPOSE AND SCOPE OF TESTIMONY**

The purpose of this testimony is to provide an estimate of the contribution loss in Fiscal Year (FY) 2009 associated with the volumes of First-Class Mail and Standard Mail that Witness Thress estimates were lost due to the “Great Recession.” The Excel spreadsheet within which this process is performed is attached to this document.

## **I. Introduction**

The recession-related effect on the Postal Service can be estimated as the loss of contribution associated with the pieces of mail previously in the system but no longer being mailed. Based on the overall volume decline from FY 2006 to FY 2009, Mr. Corbett presented a rough figure of \$5 billion as representing the lost contribution in FY2009, in support of rates seeking to recover \$3 billion in contribution.<sup>1</sup> In Order 547, the Commission criticized this estimate, claiming that it “likely overstates the contribution loss due to the exceptional or extraordinary circumstances for two reasons.” Order No. 547 at 78. First, the Commission noted that the \$5 billion estimate did not differentiate between the effects of volume losses from high-contribution products versus those from lower-contribution products. Id. Second, the Commission noted that this estimate did not attempt to decompose the volume losses into those relating to the recession and those due to other factors, such as electronic diversion. Id. at 79. In addition, the Commission apparently suggested that recessionary harm from after FY 2009 should not be taken into account. Id. Witness Thress’s analysis in this filing differentiates the volume losses by providing a decomposition of the factors affecting mail volume through FY 2009, thus addressing the Commission’s second concern (and, by not analyzing mail volume losses past FY 2009, the Commission’s additional concern). The exercise shown below, which takes recession-related volumes for First-Class Mail and Standard Mail from Witness Thress’s Table Two and multiplies them by the applicable unit contribution for FY 2009, addresses the Commission’s first concern.

## **II. Calculation of Recession-Related Contribution Loss**

The Commission was correct in its prediction that using a product-by-product approach would yield a lower estimate of harm associated with this set of volume

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<sup>1</sup> Statement of Joseph Corbett, page 16.

losses. The exercise producing the results for Table One is limited to products within First-Class Mail and Standard Mail. These are the products specified at the top of page 79 of Order No. 547. These are also the core products of the Postal Service, representing the source of more than the lion's share of the contribution to institutional cost in FY 2009. Complicating an admittedly simplistic and conservative analysis by incorporating the other products has little impact on the overall result.

The volumes identified by Witness Thress as representing the recession-related declines from FY 2007 to 2008 and from 2008 to 2009 in First-Class Mail and Standard Mail in his Table Two were simply multiplied by the FY 2009 per-piece contribution to institutional costs provided in Table IV-5 in the Commission's FY 2009 ACD. For the core First-Class Mail and Standard Mail products, this approach yields an aggregate harm estimate for FY 2009 of \$2.34 billion. This simple and conservative estimate of the harm to the Postal Service considers none of the volume lost in years after FY 2009, specifically FY 2010 and FY 2011. For this reason, and for the other reasons described in the Postal Service's Initial Comments filed on July 25, 2011, this estimate (consistent with "Method Five" in the Postal Service's Initial Comments) is a lower-bound estimate of the harm that resulted from the recession.<sup>2</sup>

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<sup>2</sup> This estimate only considers the contribution loss in FY 2009 from the cumulative volume losses from FY 2007 to 2008 and from 2008 to 2009. It does not include the contribution losses in FY 2008, nor for any years after 2009.

**TABLE ONE: Estimated FY 2009 Contribution Losses due to the Recession**

	Recession- Related Volume Losses (000)	FY09 Unit Contribution	FY09 Recession- Related Contribution Loss (\$000)
First-Class Mail:			
Single-Piece Letters and Cards	(1,590,665)	\$ 0.173	\$ (275,185)
Flats	(277,143)	\$ 0.485	\$ (134,414)
Parcels	-	\$ 0.034	-
Presort Letters and Cards	(4,595,244)	\$ 0.224	\$ (1,029,335)
Total First-Class Mail	(6,463,052)		\$ (1,438,934)
Standard Mail:			
High Density and Saturation Letters	(342,942)	\$ 0.073	\$ (25,035)
High Density and Saturation Flats & Parcels	(1,028,520)	\$ 0.093	\$ (95,652)
Carrier Route Letters	(4,582,310)	\$ 0.071	\$ (325,344)
Flats	(13,245,549)	\$ 0.081	\$ (1,072,889)
Not Flat-Machinables and Parcels	(7,845,907)	\$ (0.079)	\$ 619,827
	-	\$ (0.302)	-
Total Standard Mail	(27,045,228)		\$ (899,094)
Total First-Class and Standard Mail	(33,508,280)		\$ (2,338,028)

Source: Recession-related losses from USPS-R2010-4R/1, FY08 09 Recessn Conversion.xls, Tab SOC Converted, column (5).

Unit contribution figures from FY09 ACD (March 29, 2010), Pages 29-30, Table IV-5.

Recession-related contribution loss is the product of the recession-related volume losses and the applicable unit contributions.